

## Message Text

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ACTION NEA-10

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R 130900Z AUG 75

FM AMEMBASSY KABUL

TO AMEMBASSY ISLAMABAD

SECSTATE WASHDC 3845

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E.O. 11652: NA

TAGS: EGEN, AF, PK

SUBJ: AFGHANISTAN IMPOSES RETALIATORY DUTY ON PAKISTANI FRUIT IMPORTS

REF: ISLAMABAD 6565

1. SUMMARY. IN RETALIATION FOR NEW PAKISTANI SALES TAX ON IMPORTED AFGHAN FRESH FRUIT, AFGHANISTAN HAS ANNOUNCED A "COUNTERVAILING DUTY" ON IMPORTED PAKISTANI FRUIT. HOWEVER, AMOUNT, COVERAGE AND DATE OF IMPOSITION HAS NOT BEEN DETERMINED AND NEITHER TAX IS LIKELY TO HAVE A SIGNIFICANT IMPACT ON AFGHAN-PAK FRUIT TRADE OR BILATERAL RELATIONS. END SUMMARY.

2. REFTEL NOTED A NEW TWENTY PERCENT PAKISTANI SALES TAX ON IMPORTED FRUIT WHICH FALLS ALMOST EXCLUSIVELY ON AFGHAN FRUIT IMPORTS. GOA APPARENTLY AGREES WITH AFGHAN CHARGE IN ISLAMABAD WHO MADE ACCUSATION THIS IS POLITICALLY MOTIVATED TAX AIMED AT GOA. THE "KABUL TIMES" HAS ANNOUNCED THAT A NEW DUTY IS TO BE IMPOSED ON IMPORTED PAKISTANI FRUIT IN RETALIATION FOR PAKISTANI TAX. MINISTRY OF COMMERCE OFFICIALS CONFIRM THAT THE INTENT OF THIS NEW DUTY IS TO STRIKE BACK AT PAKISTANIS.

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3. PAKISTAN EMBASSY OFFICIALS IN KABUL ASSERT THAT SALES

TAX IS SIMPLY ONE OF NUMEROUS REVENUE MEASURES, AIMED AT USE OF LUXURIES, AND IS NOT AIMED AT AFGHANS. AFGHAN FRUIT EXPORTERS TEND TO SUPPORT THIS. THEY STATE TAX WILL NOT REDUCE CONSUMPTION, THAT DEMAND IS HIGH ENOUGH TO SUPPORT PRICE RISE. THEY ASSERT, HOWEVER, THAT THEY HAD BEEN PREPARING THEIR CUSTOMERS FOR A TWENTY PER CENT PRICE RISE OF THEIR OWN, WHICH IS NOW VIRTUALLY IMPOSSIBLE. ONE SAYS THAT THE GOP IN EFFECT HAS STOLEN THE INCREASED REVENUE FROM AFGHAN EXPORTERS.

4. PAKISTANI IMPORTS OF AFGHAN FRUIT IN FY73/74 WERE APPROXIMATELY \$8.5 MILLION. SUCH RECENT FIGURES ARE NOT AVAILABLE HERE, BUT FY72/73 AFGHAN IMPORTS OF ALL TYPES OF FRESH AND DRIED FRUITS AND NUTS FROM PAKISTAN AMOUNTED TO JUST OVER ONE MILLION DOLLARS, AND RECENT IMPORTS ARE AT APPROXIMATELY THE SAME LEVEL. PAKISTANI FRUIT IN KABUL IS A SEASONAL ITEM, IMPORTED ONLY WHEN AFGHAN FRUIT IS OUT OF SEASON. THUS, THE GOA HAS A DIFFICULT PROBLEM IN IMPOSING A COUNTERVAILING DUTY. TO GATHER AN EQUIVALENT REVENUE FROM FRUIT IMPORTS WOULD REQUIRE A DUTY INCREASE OF ALMOST 200 PERCENT, WHICH WOULD MAKE PAKISTANI FRUIT PROHIBITIVELY EXPENSIVE, AND WOULD SERIOUSLY ANNOY THE WEALTHY OF KABUL, WHO ARE THE PRIMARY PURCHASERS. A DUTY SURCHARGE OF ONLY 20 PERCENT, TO MATCH THE SALES TAX, WOULD BRING IN LITTLE REVENUE AND WOULD PROBABLY HAVE NO NOTICEABLE EFFECT ON VOLUME OF TRADE. THE KABUL CUSTOMS HOUSE REPORTS IT IS NOT YET IMPOSING ANY ADDITIONAL DUTY, AND IT DOES NOT KNOW WHEN IT WILL BE IMPOSED, WHAT THE AMOUNT WILL BE, OR WHAT IT WILL COVER.

5. CURRENT PAKISTANI DUTY ON IMPORTED FRUIT IS 62 PERCENT. DESPITE THIS RELATIVELY HIGH DUTY, FRESH FRUIT HAS FIGURED LITTLE IN THE SMUGGLING TRADE, BECAUSE OF ITS BULK AND FRAGILITY. SOME MERCHANTS, HOWEVER, ASSERT THAT THE NEW TAX MAY TIP THE SCALES ENOUGH TO INITIATE LARGE-SCALE FRESH FRUIT SMUGGLING THROUGH THE PAKISTANI TRIBAL TERRITORIES. THEY STATED THAT ANY NOTICEABLE REDUCTION OBSERVED IN FUTURE IMPORT LEVELS OF AFGHAN FRUIT SHOULD BE ATTRIBUTED TO DIVERSION OF FRUIT TO SMUGGLING ROUTES, RATHER THAN A TRUE REDUCTION IN VOLUME.

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6. COMMENT: THE NEW AFGHAN DUTY IS CLEARLY INTENDED AS A POLITICAL RETALIATION AGAINST WHAT IS SEEN AS A DISCRIMINATORY TAX. THE ANNOUNCEMENT HAVING SERVED THIS PURPOSE, THERE IS SOME QUESTION WHETHER THE DUTY WILL EVER BE ACTUALLY IMPOSED, OR THE IMPLEMENTATION STANDARDS EVEN DETERMINED. THE MERCHANT'S COMMENTS LEAD TO THE CONCLUSION THAT THERE WILL BE LITTLE TRADE EFFECT IN EITHER DIRECTION FROM EITHER TAX OR DUTY. DIVERSION TO SMUGGLING IS APPARENTLY AN ACTIVE

POSSIBILITY. IF THE GOP ACTUALLY DID INTEND THIS AS A REVENUE MEASURE, THEY MAY FIND THAT IT ACTUALLY RESULTED IN A LOSS OF REVENUE IF SMUGGLING ON A LARGE SCALE BEGINS. NOBODY AT THE PAKISTANI MISSION OR IN THE INVOLVED GOA MINISTRIES SEEMS VERY EXCITED ABOUT THIS MATTER. FOR THE PRESENT, IT IS UNLIKELY TO HAVE ANY SERIOUS EFFECT ON AFGHAN-PAKISTANI RELATIONS.  
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